

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-07
NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9763
SECDEF WASHDC
INFO USMISSION NATO BRUSSELS
USCINCEUR
USNMR SHAPE

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 01199

E.O. L1652: XGDS-1
TAGS: MPOL, UK, NATO
SUBJECT: UK DEFENSE BUDGET

REF: A)LONDON 918; B)LONDON 621; C)LONDON 334

1. TAKING ALL ANNOUNCED CUTS INTO ACCOUNT, THE 77/78
DEFENSE BUDGET (1976 SURVEY PRICES) WILL AMOUNT.
ACCORDING TO MOD, TO 5447 MILLION POUNDS (NATIONAL
DEFINITION) OR ABOUT 5650 MILLION POUNDS (NATO DEFINIT-
ION ADDING 200 MILLION FOR EXTRA ITEMS UNDER NATO
DEFINITIONS) WHICH WORKS OUT AT A REDUCTION IN REAL
TERMS OF ABOUT 3 PERCENT COMPARED WITH 76/77.

2. FOR 78/79 TOTAL DEFENSE EXPENDITURE WILL BE 5600
MILLION POUNDS (INCLUDES 200 MILLION ADDED UNDER NATO
DEFINITIONS), REFLECTING A REDUCTION IN REAL TERMS OF
LESS THAN ONE PERCENT COMPARED TO 77/78. THIS EXPENDIT-
URE INCLUDES THE FEBRUARY 1976 193 MILLION POUNDS
REDUCTION AND THE DECEMBER 1976 230 MILLION POUNDS
REDUCTION.

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3. THE CUMULATIVE TOTAL OF REDUCTIONS IN PLANNED UK
DEFENSE EXPENDITURE SINCE MAY 1973 TO DECEMBER 1976 IN
CURRENT PRICES IS 6134 MILLION POUNDS WHICH, AT 1976
PRICES, IS PROBABLY JUST OVER 8 BILLION POUNDS. MOD
POINTS OUT, HOWEVER, THAT THIS KIND OF TOTAL FIGURE
"IS MEANINGLESS" SINCE IT REFLECTS CUTS AGAINST FORECAST

EXPENDITURES AND NOT AGAINST PROGRAMS WHICH HAVE BEEN VOTED BY PARLIAMENT. AS ONE MOD DOCUMENT PUTS IT, THE BRITISH IN NATO ARE "THE ONLY NATION TO GO THROUGH THE ANNUAL CHARADE OF A PROJECTION OF THE PLANNERS' FANTASIES FOR A NUMBER OF YEARS AHEAD, FOLLOWED BY THE PUBLIC 'CUTTING' OF THESE FORWARD PLANS TO BRING THEM CLOSER TO REALITY: THIS IS CALLED PUBLIC EXPENDITURE REVIEW, AND MORE OR LESS ENSURES THAT WE WILL HAVE 'CUTS' IN PLANNED DEFENSE EXPENDITURE TO REPORT TO NATO AT LEAST ONCE EACH YEAR."

4. GOING ON, IT IS ARGUED THAT THE ONLY REAL CUTS ARE CUTS IN CURRENT DEFENSE BUDGET OR IN PLANNED BUDGET FOR THE NEXT FINANCIAL YEAR. ON THIS BASIS, OF THE 6134 MILLION POUNDS (AT CURRENT PRICES) (PARA 3) TOTAL IN PLANNED UK DEFENSE BUDGET REDUCTIONS, A TOTAL OF 1417 MILLION POUNDS (AT DIFFERENT PRICE LEVELS) FALL INTO THIS CATEGORY OF CUTS. THE MOD ARGUES THAT MEASURED IN REAL TERMS, BRITISH DEFENSE EXPENDITURE HAS STAYED STEADY AND, MEASURED BY SUCH STANDARD NATO YARDSTICKS AS PERCENT OF GDP OR EXPENDITURE ON EQUIPMENT, "IT HAS STAYED COMPARATIVELY HIGH."

5. ON UK EXPENDITURE ON DEFENSE EQUIPMENT THE UK, COMPARATIVELY, "LEADS THE WHOLE NATO FIELD." USING THE NATO DEFINITION FOR "MAJOR EQUIPMENT" THE MOD ASSERTS THAT THE UK EXPENDITURE ON EQUIPMENT AS A PROPORTION OF

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THE DEFENSE BUDGET IS AS FOLLOWS:

72/73 18.6 PERCENT (UK SECOND AFTER US)
73/74 19.3 PERCENT (UK FIRST)
74/75 17.2 PERCENT (UK SECOND AFTER US)
75/76 19.3 PERCENT (UK FIRST)
76/77 20.0 PERCENT (UK FIRST)

6. ON THE MATTER OF COMPENSATION FOR INFLATION, THE UK PRIDES ITSELF AS BEING THE ONLY MAJOR NATO NATION WHICH "REGULARLY COVERS" THE FULL EFFECTS OF PAY AND PRICE INCREASES ON THE DEFENSE BUDGET AND IS THE ONLY NATION TO HAVE MADE "FULL COMPENSATION" FOR PAY AND PRICE INCREASES A NORMAL ASPECT OF PUBLIC EXPENDITURE. THIS IS COSTING IN 76/77 OVER ONE BILLION POUNDS FOR DEFENSE.

7. IN REAL TERMS THE LEVEL OF UK DEFENSE SPENDING FOR 74-76 IS MINUS 3.9 PERCENT; PLUS 2.9 PERCENT AND
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PLUS 2.5 PERCENT RESPECTIVELY. THE CUTS ANNOUNCED IN JULY AND DECEMBER 1976 BRING DEFENSE SPENDING IN REAL TERMS FOR 77/78 AND 78/79 TO 5650 AND 5600 MILLION POUNDS RESPECTIVELY, SHOWING A "SLIGHT DECLINE" FROM 76/77 OF 5840 MILLION POUNDS (NATO DEFINITION TOTAL -- INCLUDING ADJUSTMENT FOR 1976 PRICES).

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